

Corporate Governance
SEBI Circular on 18th October 2019 on resignation of statutory auditors from listed entities and their material subsidiaries

| Introduction / Background | |
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| <p>➤ Purpose of Circular</p> | <p>▼ Listed companies are required to make timely disclosures to investors in the securities market for enabling them to take informed investment decisions.</p> |
| <p>➤ Existing LODR Requirements</p> | <p>▼ Disclosure to stock exchange, resignation of auditor within 24 hours As per LODR detailed reasons to be disclosed by the listed entities to the stock exchanges in case of resignation of the auditor of a listed entity as soon as possible but not later than 24 hours of receipt of such reasons from the auditor.</p> <p>▼ Responsibility of audit committee w.r.t auditor As per LODR the Audit Committee of a listed entity, inter alia, has to make recommendations for the appointment, remuneration and terms of appointment of auditors of a listed entity. The Audit Committee is also responsible for reviewing and monitoring the independence and performance of auditors and the effectiveness of the audit process.</p> <p>▼ Disclosure to shareholders regarding appointment to shareholders LODR lays down certain disclosures to be made part of the notice to the shareholders for an AGM, where the statutory auditors are proposed to be appointed/re-appointed, including their terms of appointment.</p> <p>▼ Summary Chart</p> <div style="text-align: center; border: 1px solid #3498db; padding: 10px; margin: 10px 0;"> <pre> graph LR A[Auditor resigns & informs reason to company] --> B[Company should inform stock exchanges within 24hrs] B --> C[Audit Committee recommends auditor] C --> D[Notice to shareholders should contain disclosures about auditor] </pre> </div> |
| <p>➤ Casual reasons like pre-occupation hampers investor confidence</p> | <p>▼ Disclosure to shareholders regarding appointment to shareholders Resignation of an auditor of a listed entity / its material subsidiary before completion of the audit of the financial results for the year due to reasons such as pre-occupation may seriously hamper investor confidence and deny them access to reliable information for taking timely investment decisions.</p> <p>(Material Subsidiary” means a subsidiary whose income or net worth exceeds ten percent of the consolidated income or net worth, respectively, of the Company and its Subsidiaries in the immediately preceding accounting year.)</p> |

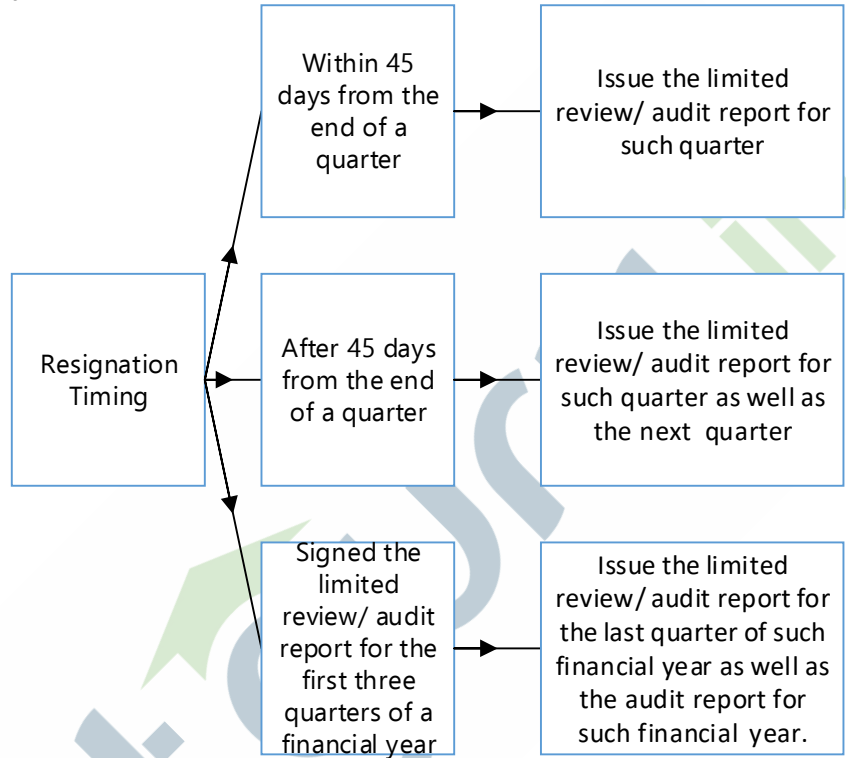
Conditions on Resignation (Content of Circular)

In light of the above, the conditions to be complied with upon resignation of the statutory auditor of a listed entity/material subsidiary w.r.t. limited review / audit report as per SEBI LODR Regulations, are as under:

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| <p>➤ PART A (Compulsion to issue audit / review report)</p> | <p>▼ All listed entities/material subsidiaries shall ensure compliance with the following conditions while appointing / re-appointing an auditor:</p> <ul style="list-style-type: none"> If the auditor resigns within 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter. If the auditor resigns after 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter as well as the next quarter. |
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- Notwithstanding the above, if the auditor has **signed the limited review/ audit report for the first three quarters of a financial year**, then the auditor shall, before such resignation, **issue the limited review/ audit report for the last quarter of such financial year as well as the audit report for such financial year.**

▼ Summary Chart

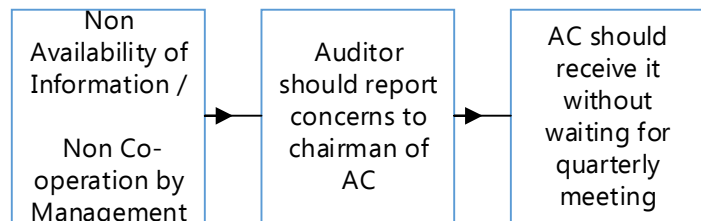


➤ PART B (Resignation if there is non-receipt of information)

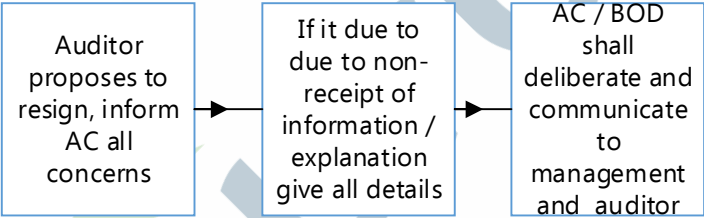
▼ Other conditions relating to resignation shall include:

- Reporting of concerns** with respect to the listed entity/its material subsidiary to the Audit Committee:
 - In case of any concern with the management of the listed entity/material subsidiary such as **non-availability of information / non-cooperation by the management** which may hamper the audit process, the auditor shall approach the **Chairman of the Audit Committee** of the listed entity and the Audit Committee shall receive such concern directly and immediately **without specifically waiting for the quarterly Audit Committee meetings.**

○ Summary Chart



- Disclaimer in case of non-receipt of information:** In case the listed entity/ its material subsidiary does not provide information required by the auditor, to that extent, **the auditor shall provide an appropriate**

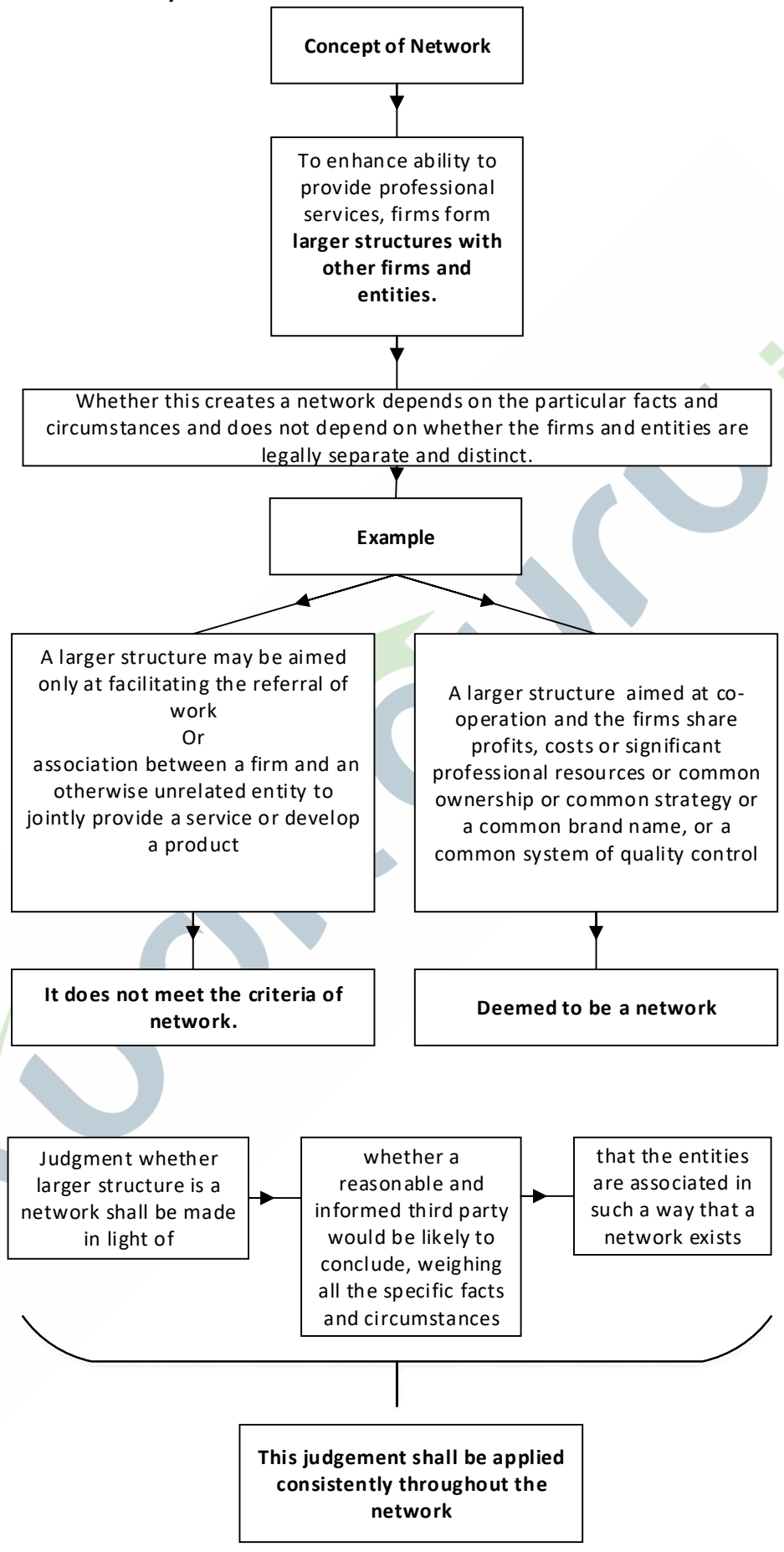
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| | <p>disclaimer in the audit report, which may be in accordance with the Standards of Auditing as specified by ICAI/ NFRA.</p> <ul style="list-style-type: none"> • In case the auditor proposes to resign, <ul style="list-style-type: none"> ○ all concerns with respect to the proposed resignation, along with relevant documents shall be brought to the notice of the Audit Committee. In cases where the proposed resignation is due to non-receipt of information I explanation from the company, the auditor shall inform the Audit Committee of the details of information I explanation sought and not provided by the management, as applicable. ○ On receipt of such information from the auditor relating to the proposal to resign as mentioned above, the Audit Committee I board of directors, as the case may be, shall deliberate on the matter and communicate its views to the management and the auditor. ○ Summary Chart  <pre> graph LR A[Auditor proposes to resign, inform AC all concerns] --> B[If it due to due to non-receipt of information / explanation give all details] B --> C[AC / BOD shall deliberate and communicate to management and auditor] </pre> <ul style="list-style-type: none"> • Inclusion in Engagement Letter The listed entity/ material subsidiary shall ensure that the conditions as mentioned in Part A and Part B above are included in the terms of appointment of the statutory auditor at the time of appointing/re-appointing the auditor. In case the auditor has already been appointed, the terms of appointment shall be suitably modified to give effect to Part A and Part B above. • Certification by Company Secretary The practicing company secretary shall certify compliance by a listed entity with Part A and Part B above in the annual secretarial compliance report. |
| <p>➤ Part C (Format / Audit Committee's Views / Co-Operation)</p> | <p>▼ Obligations of the listed entity and its material subsidiary:</p> <ul style="list-style-type: none"> • Format of information to be obtained from the statutory auditor upon resignation: Upon resignation, the listed entity/ its material subsidiary shall obtain information from the Auditor in the format as specified in Annexure A to this Circular. The listed entity shall ensure disclosure of the same to stock exchange within 24 hours. • Disclosure of Audit Committee's views to the Stock Exchanges: Upon resignation of the auditor, the Audit Committee shall deliberate upon all the concerns raised by the auditor with respect to its resignation as soon as possible, but not later than the date of the next Audit Committee meeting and communicate its views to the management. The listed entity shall ensure the disclosure of the Audit |

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| | <p>Committee's views to the stock exchanges as soon as possible but not later than 24 hours after the date of such Audit Committee meeting.</p> <ul style="list-style-type: none"> • Co-operation by listed entity and its material subsidiary: During the period from when the auditor proposes to resign till the auditor submits the report for such quarter / financial year as specified above, the listed entity and its material subsidiaries shall continue to provide all such documents/information as may be necessary for the audit I limited review. |
| <p>➤ Miscellaneous</p> | <ul style="list-style-type: none"> ▼ Power of SEBI to Issue Circular The Circular is issued in exercise of the powers of the SEBI Act, 1992 read with regulations of the SEBI LODR Regulations and shall be in addition to the provisions of Companies Act, 2013. ▼ Responsibility of Stock Exchange The Stock Exchanges are advised to bring the provisions of this circular to the notice of all listed entities and their material subsidiaries and also disseminate it on their websites. ▼ If No AC then BOD In case an entity is not mandated to have an Audit Committee, then the board of directors of the entity shall ensure compliance of this circular. ▼ Non-Applicability of this Circular In case the auditor is rendered disqualified due to operation of any condition mentioned in Section 141 of the Companies Act, 2013, then the provisions of this Circular shall not apply. |

Professional Ethics--Network Guidelines

| Concept of Network | |
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| <p>➤ Network is a larger structure, but all larger structures may not be network</p> | <ul style="list-style-type: none"> ▼ To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, a larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is deemed to be a network. <ul style="list-style-type: none"> • Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network. • The judgment as to whether the larger structure is a network shall be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network exists. This judgment shall be applied consistently throughout the network. |

▼ Summary Chart



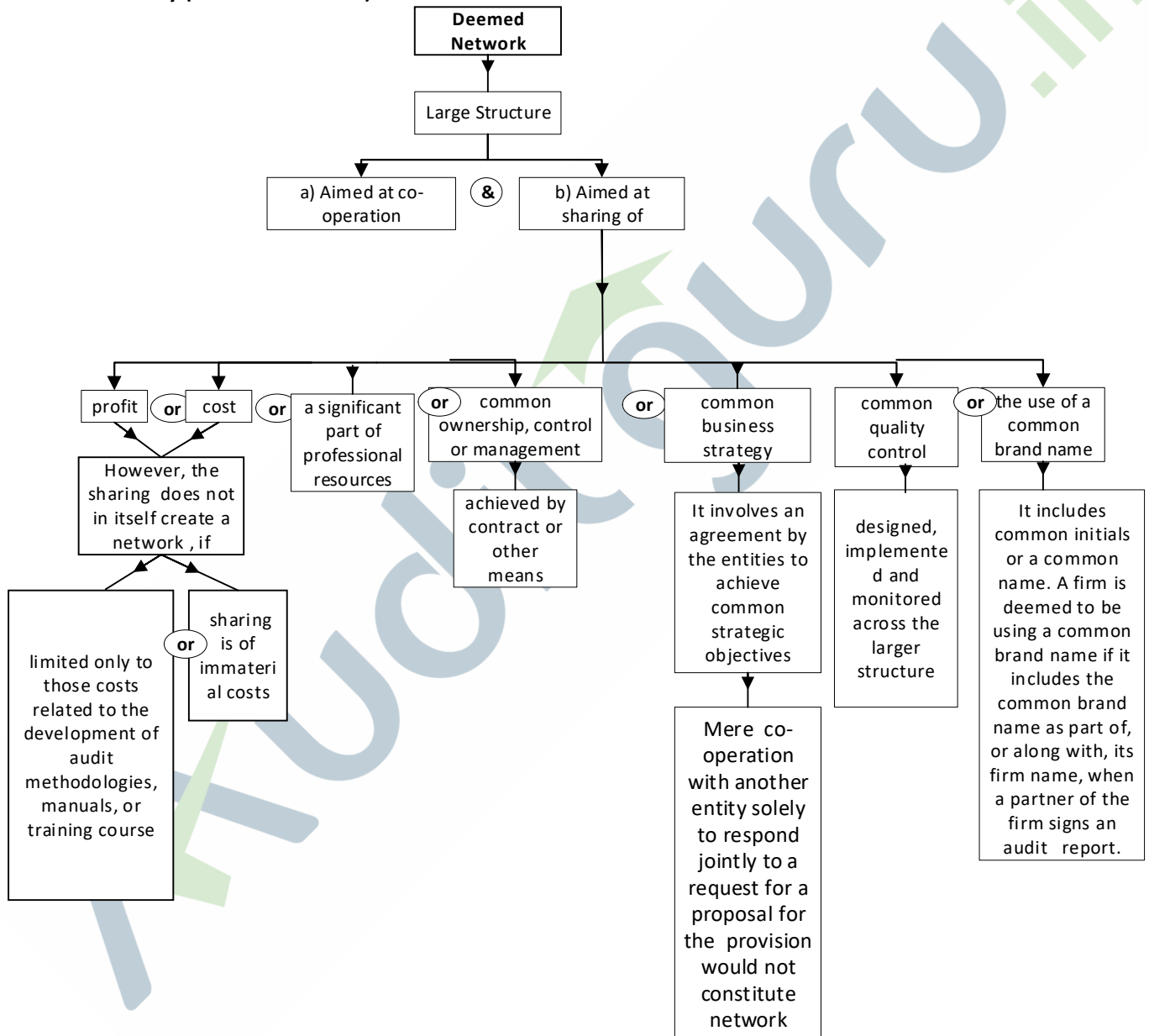
➤ Deemed Network

- ▼ Where the larger structure is aimed at co-operation and it is clearly aimed at **profit or cost sharing** among the entities within the structure, it is deemed to be a network. However, the sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network.
- ▼ Where the larger structure is aimed at co-operation and the entities within the structure **share a significant part of professional resources**, it is deemed to be a network.
 - **Professional resources include:**
 - Partners and staff;
 - Audit methodology or audit manuals; and Training courses and facilities.
 - Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements;
 - Common systems that enable firms to exchange information such as client data, billing and time records;
 - **Significant part of professional services**
The determination of whether the professional resources shared are significant, and therefore the firms are network firms, shall be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.
- ▼ Where the larger structure is aimed at cooperation and the entities within the structure **share common ownership, control or management**, it is deemed to be a network. This could be achieved by contract or other means.
- ▼ Where the larger structure is aimed at co-operation and the entities within the structure share a **common business strategy**, it is deemed to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not deemed to be a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision.
- ▼ Where the larger structure is aimed at co-operation and the entities within the structure **share common quality control policies and procedures**, it is deemed to be a network. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.
- ▼ Where the larger structure is aimed at co-operation and the entities within the structure share the use of a **common brand name**, it is deemed to be a network.

A common brand name includes common initials or a common name. A firm is deemed to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name, when a partner of the firm signs an audit report.

- Even though a firm does not belong to a network and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes **reference in its stationery or promotional materials to being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such memberships, a perception may be created that the firm belongs to a network.**

▼ Summary (Deemed Network)



Joining/Association with “Networks” by Members in Practice

It is hereby clarified that associations with “Network” as a medium of referral of professional work is **permissible only if the Network is registered with the Institute**, comprising only of Chartered Accountants/ Chartered Accountant Firms, and governed by the Institute’s Network

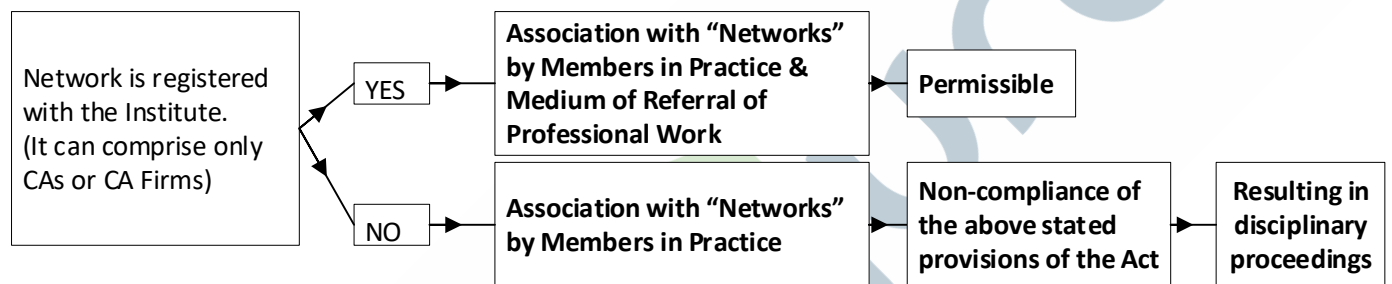
Members attention is also drawn towards following provisions of Chartered Accountants Act, 1949 (hereinafter referred to as the “Act”):

Clause 2 / 3 / 4 / 5 / 6 Part I of First Schedule

In view of the above provisions, it is not permissible for members in practice to join Networks (by whatever name called) other than the Networks registered with the Institute.

Members may note that joining such Networks as mentioned above may result in noncompliance of the above stated provisions of the Act resulting in disciplinary proceedings in accordance with the provisions of the Act.

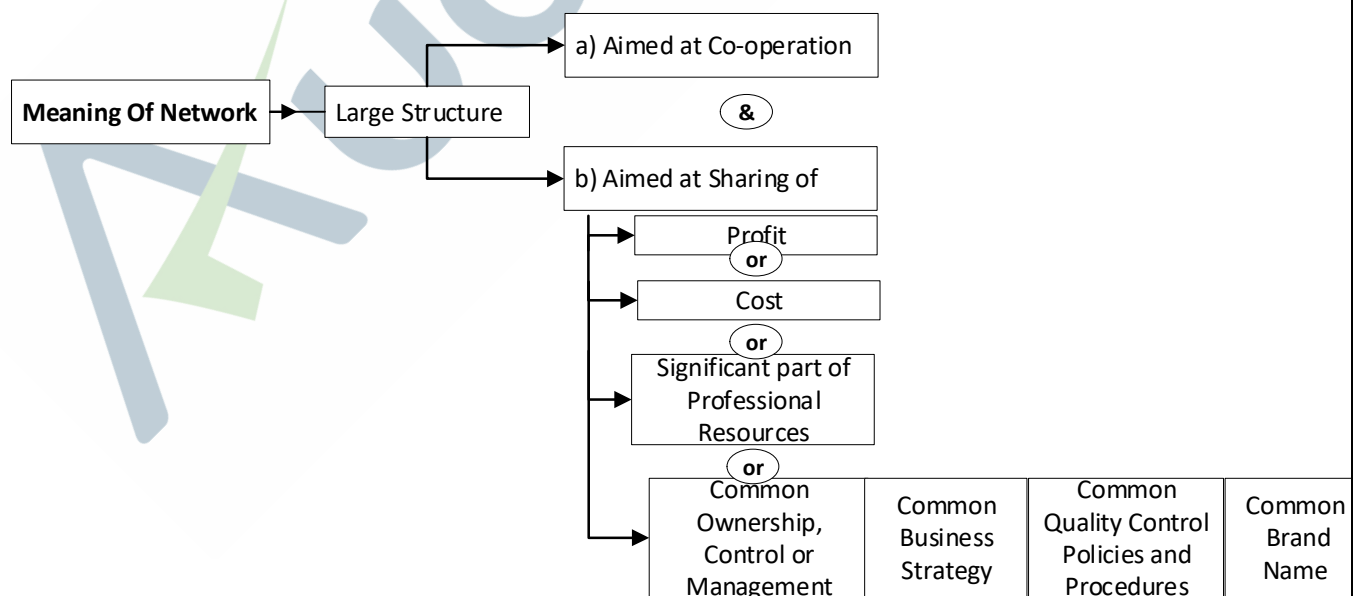
▼ **Summary Chart**



Meaning of Network & Network Firm

Network - A larger structure (a) That is aimed at co-operation; and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

▼ **Summary Chart**



Network Firm – “Network Firm” means a firm or Entity that belongs to a Network.

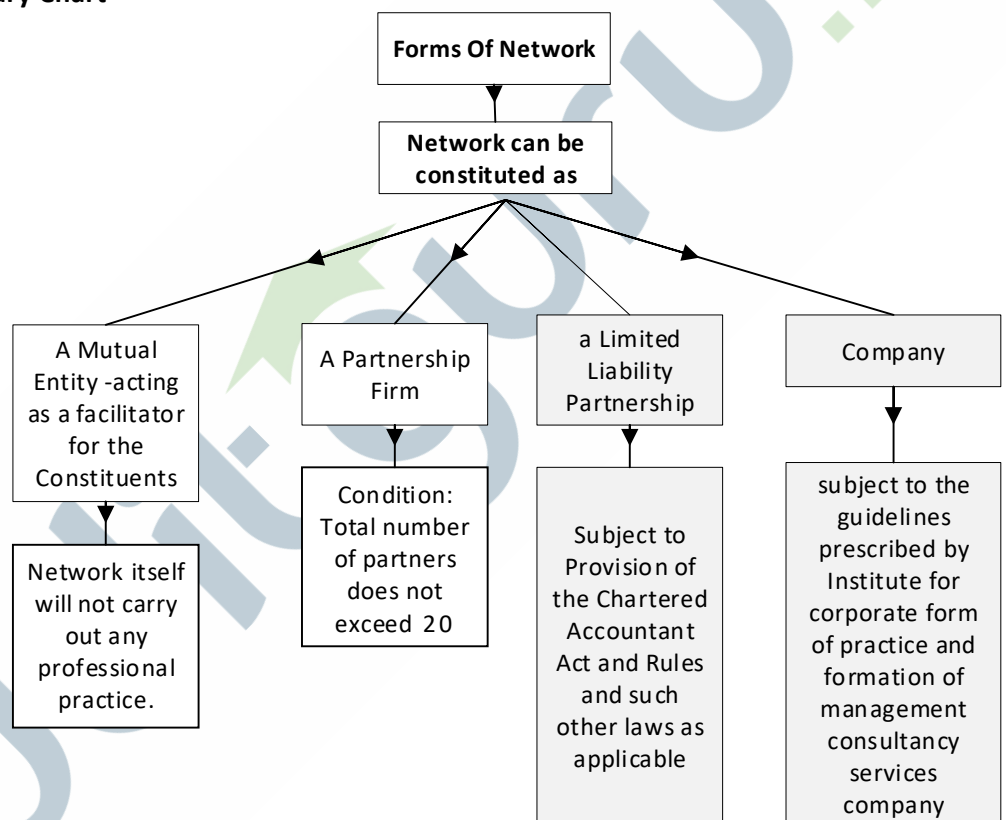
Forms of the Network

➤ The different forms of Network can be as under:-

▼ Types

- A network can be constituted as a mutual entity which will act as a facilitator for the constituents of the Network. In such a case the Network itself will not carry out any professional practice.
- A network can be constituted as a partnership firm subject to the condition that the total number of partners does not exceed twenty.
- A network can be constituted as a Limited Liability Partnership subject to the provision of the Chartered Accountant Act and Rules and such other laws as may be applicable.
- A network can be constituted as company subject to the guidelines prescribed by Institute for corporate form of practice and formation of management consultancy services company.

▼ Summary Chart



▼ Conditions

- Network Firms shall consist of sole Practitioner/proprietor, partnership or any such entity of professional accountants as may be permitted by the Act
- A firm is allowed to join only one network.
- Firms having common partners shall join only one Network.

Approval of Name of Network amongst firms registered with Institute

➤ Name of Network

- ▼ The Network may have distinct name which should be approved by the Institute.
- ▼ To distinguish a "Network" from a "firm" of Chartered Accountants, the words "& Affiliates" shall be used after the name of the network and the words "& Co." / "& Associates" shall not be used.

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| | <p>▼ Summary Chart</p> <pre> graph LR A[Name of Network] --> B[May have] A --> C[Distinguish a "Network" from a "firm" of Chartered Accountants] B --> D[Distinct Name] D --> E[But] E --> F[Should be approved by institute] C --> G["& Affiliates" and not the words "& Co." / "& Associates""] G --> H[shall be used after the name of the network] </pre> |
| <p>➤ Approval of Name for Network</p> | <p>▼ The prescribed format of application for approval of Name for Network is at Form 'A' (enclosed).</p> <p>▼ Illustrative examples of names of Network: -</p> <ul style="list-style-type: none"> • If the Network is a Mutual Entity or Partnership Firm: AB & Affiliates • If the Network is a LLP: AB Affiliates LLP • If the Network is a Limited Company: AB Affiliates P. Ltd/Limited <p>▼ Summary Chart</p> <pre> graph LR A[Approval of Name of Network] --> B[format of application for approval of Name] A --> C[Illustrative examples of names of Network] B --> D[Form 'A'] C --> E[Network is a Mutual Entity or Partnership Firm] C --> F[Network is a LLP] C --> G[Network is a Limited Company] E --> H[AB & Affiliates] F --> I[AB Affiliates LLP] G --> J[AB Affiliates P. Ltd/Limited] </pre> |
| <p>➤ Applicability of Regulation 190</p> | <p>▼ Provisions of Regulation 190 of the Chartered Accountants Regulations, 1988 shall be applicable to the name of Network.</p> <ul style="list-style-type: none"> • However, even if a name is approved and subsequently it is found that the same is undesirable then, the said name may be withdrawn at any time by the Institute. • The Institute shall reject any undesirable name and the provisions in respect of names of companies as prescribed in the Companies Act, 2013 shall be applicable in spirit. <p>▼ Summary Chart</p> <pre> graph LR A[Regulation 190 of the Chartered Accountants Regulations, 1988 shall be applicable to the name of Network] --> B[if a name is approved and subsequently found undesirable] A --> C[if a name is rejected as it is undesirable] B --> D[name may be withdrawn at any time by the Institute] C --> E[Companies Act, 2013 shall be applicable in spirit.] </pre> |

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| ➤ Approval or rejection of name within a time frame | ▼ The Institute shall approve or reject the name of the Network and intimate the same to the Network at its address mentioned in Form 'A' within a period which shall not be later than 30 days from the date of receipt of the said Form. |
| ➤ Approval v/s Entitlement to practice in its own name | ▼ Mere approval of the name of the Network shall not entitle the Network to carry on practice in its own name |

Listing of Network with entities outside India

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| ➤ Filing a declaration with the Institute | The duly authorized representative(s) of the Indian Member firm (s)/Member constituting the Network with entities outside India shall file a declaration with the Institute in Form 'D' for Listing of such Network within 30 days from the date of entering into the Network arrangement. |
| ➤ Joining network with entities outside India-Condition | Proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members as may be permitted by the Act, shall be permitted to join such network with entities outside India provided that the proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members are allowed to join only one network and firms having common partners shall join only one such network. |

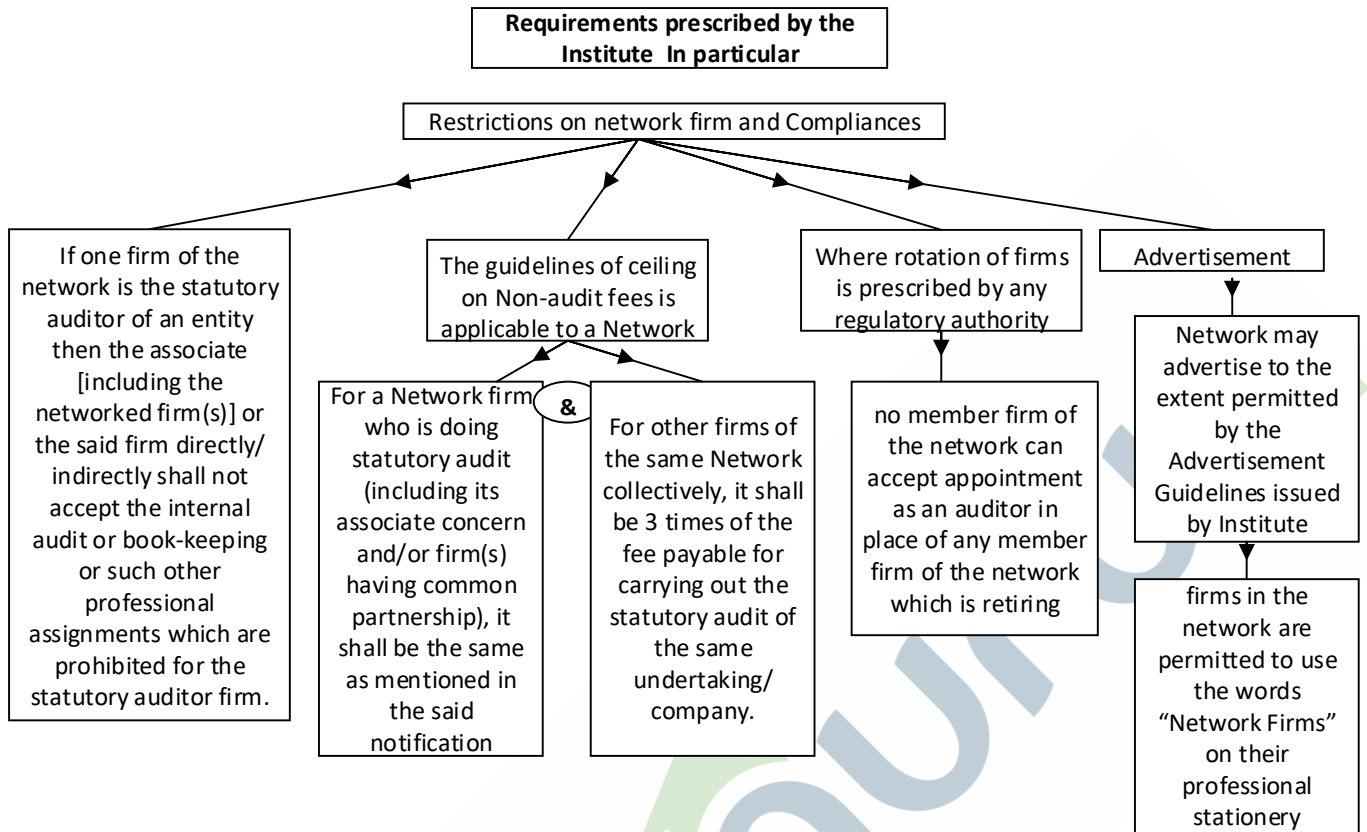
Change in constitution of registered Network

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| ➤ Communication of entry or exit from network to the Institute | In case of change in the constitution of registered Network on account of any entry into or exit from the Network, the network shall communicate the same to the Institute by filing Form 'C' within a period of thirty (30) days from the date of change in the constitution. |
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Ethical Compliance:

Once the relationship of network arises, it will be necessary for such a network to comply with all applicable ethical requirements prescribed by the Institute from time to time in general and the following requirements in particular:

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| ➤ Restrictions on network firm and Compliances | <ul style="list-style-type: none"> ▼ If one firm of the network is the statutory auditor of an entity then the associate [including the networked firm(s)] or the said firm directly/indirectly shall not accept the internal audit or book-keeping or such other professional assignments which are prohibited for the statutory auditor firm. ▼ The guidelines of ceiling on Non-audit fees is applicable in relation to a Network as follows: <ul style="list-style-type: none"> • For a Network firm who is doing statutory audit (including its associate concern and/or firm(s) having common partnership), it shall be the same as mentioned in the said notification; and • For other firms of the same Network collectively, it shall be 3 times of the fee payable for carrying out the statutory audit of the same undertaking/company. ▼ In those cases where rotation of firms is prescribed by any regulatory authority, no member firm of the network can accept appointment as an auditor in place of any member firm of the network which is retiring. ▼ The Network may advertise the Network to the extent permitted by the Advertisement Guidelines issued by Institute. The firms constituting the network are permitted to use the words "Network Firms" on their professional stationery. ▼ The constituent member firms of a Network and the Network shall comply with all the Ethical Standards prescribed by the Council from time to time. |
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| Consent of Client: | |
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| ➤ Consent deemed to be obtained | The effect of registration of network with Institute will be deemed to be a public notice of the network and therefore consent of client will be deemed to be obtained. |

| Framework of Internal Byelaws of Network | |
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| To streamline the networking, a network shall formulate operational bye-laws. Bye-laws may contain the following clauses on which the affiliates of the network may enter into a written agreement among themselves: | |
| ➤ Clauses Bye-laws may contain | CPL network bye laws by D ² RAFT ² SMEN <ul style="list-style-type: none"> ▼ Determining Compensation to member firms for resources to be drawn from them ▼ Peer review of the member firms ▼ Library ▼ Dispute settlement procedures through arbitration and conciliation ▼ Development and maintenance of Data bases relevant for different types of assignments ▼ Determining the methodology for drawing Resources from each member firm ▼ Administration of the network ▼ Contribution of membership Fees to meet the cost of the administration of the network. ▼ Development of Training materials for members of the network ▼ Appointment of a Technical director to whom references can be made ▼ Development of Software for different types of assignments ▼ Appointment of a Managing Committee, from among the managing partners of the member firms of the network and the terms and conditions under which it should function. The minimum and maximum number of members of the Managing Committee shall also be agreed upon. |

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| | <ul style="list-style-type: none"> ▼ Identifying a partner of any of the member firms of the network to be responsible for the assignment (Engagement partner) ▼ Issue of Newsletters for staff and clients <p>These clauses are illustrative.</p> |
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| Repeal and Saving: | |
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| <ul style="list-style-type: none"> ➤ “Rules/ Guideline of Network” stands repealed & Proviso to it | <ul style="list-style-type: none"> ▼ The erstwhile “Rules/Guidelines of Network” issued by the Institute stands repealed from the date of commencement of these Guidelines. <ul style="list-style-type: none"> • Provided that notwithstanding such repeal, anything done or any action taken or purported to have been done or taken in respect of the erstwhile Rules/Guidelines prior to the date of applicability of these Guidelines shall be deemed to have been done or taken under the corresponding provisions of these Guidelines |